CENTRAL BANK of BELIZE

Bi-Annual Credit Conditions Survey

Results for the Second Half of 2024

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About the Survey

The Central Bank of Belize distributed the second of its semi-annual Credit Conditions Survey to deposit-taking institutions (DTIs) in August 2024. The DTIs, consisting of domestic banks and credit unions, provided insights on credit conditions during the first half of 2024 (H1-24) and their outlook for the second half of 2024 (H2-24). Nine of 12 licensed DTIs responded to the survey, accounting for 93.0% of the loan market.

Responses were converted into a diffusion index (DI), which indicated relative changes in supply and demand conditions in the domestic credit market from the lenders' perspective. Qualitative responses to questions were scored between -1 and 1, with -1 denoting the strongest negative sentiment on a symmetric five-point Likert scale and vice versa.

Executive Summary

Compared to the second half of 2023, DTIs observed a marginal increase in demand for credit, as credit postures varied. However, concerns over credit and liquidity risks and the state of the economy contributed to a $60.4mn (1.9%) decline in aggregate lending to the private sector during H1-24. For the second half of 2024, almost all institutions expect their loan portfolios to grow, supported by relaxed credit standards, particularly among credit unions, and heightened demand for credit, especially from domestic banks. The strongest loan growth is anticipated for tourism, distribution, real estate, and agriculture.

Overall Credit Conditions

For the first time since 2021, during the COVID-19 pandemic, DTIs' lending to the private sector contracted during the first half of the year by $60.4mn (1.9%) to $3,162.7mn, as seen in Chart 1. Domestic banks were responsible for 67.6% of the downturn, as their aggregate loan portfolio shrank by $40.8mn (1.6%), while credit unions' private sector lending decelerated by $19.6mn (2.8%). For domestic banks, the decrease was largely attributable to considerable declines in loans for tourism, construction, and agriculture, while for credit unions, reductions were recorded

Figure 1: Summary of Credit Conditions

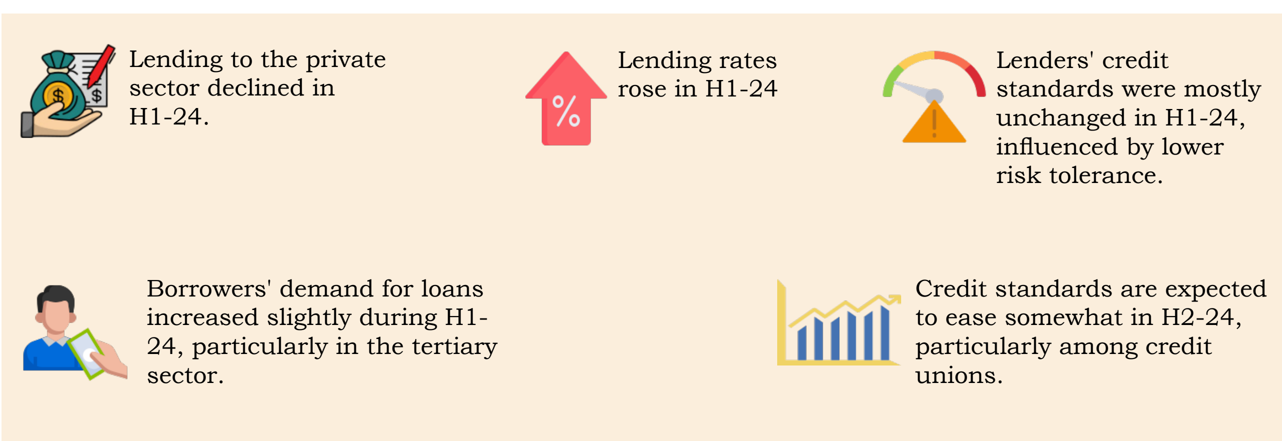
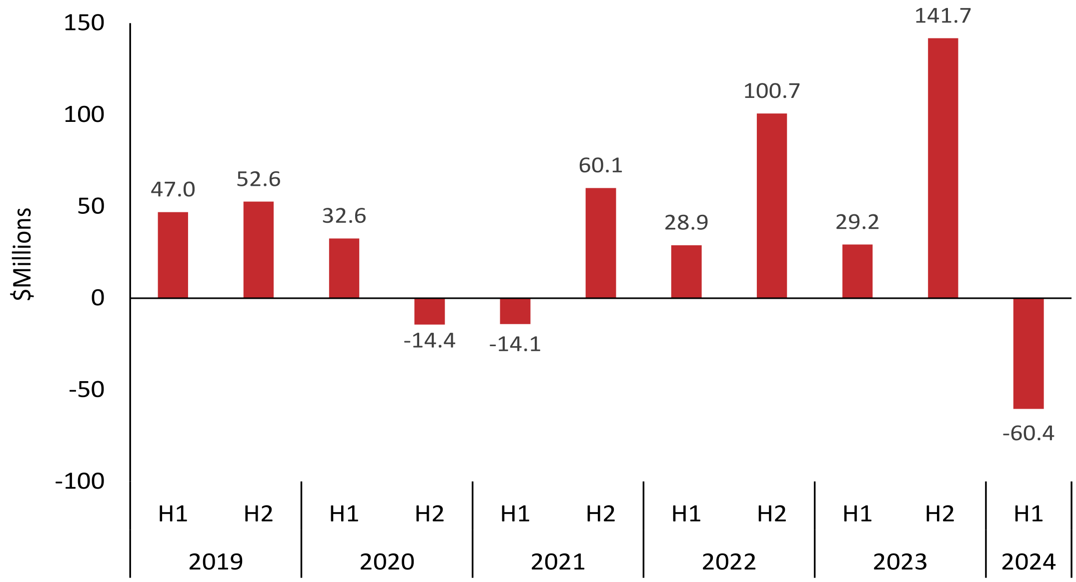


Chart 1: Change in DTIs' Loans and Advances



in loans for real estate, construction, and agriculture. Around \$21.1mn of the overall decline in DTIs' lending comprised write-offs of non-performing loans, which improved the health of the banking system's assets. A 16-basis-point increase in the weighted average interest rate on new loans from domestic banks to 8.84% contributed to the subdued lending activity over the semester.

Credit Supply

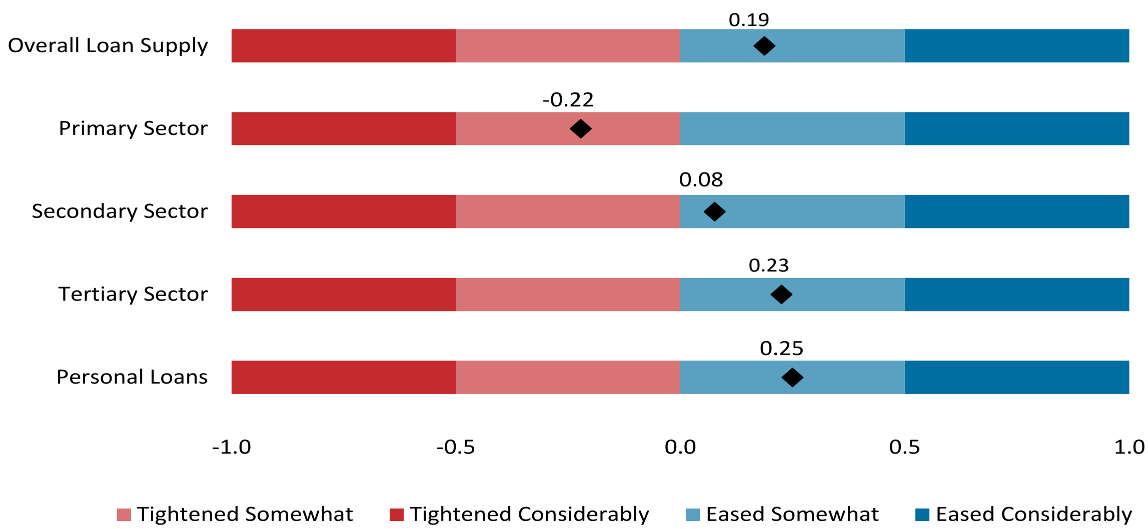
The DI score for credit supply in the first half of 2024 was 0.19, pointing to a moderate relaxation of credit standards among DTIs compared to the second half of 2023, see Chart 2. Many institutions maintained their credit postures from the previous semester, but a larger share of the loan market leaned into a more accommodative stance. Stricter standards were applied against loans in the primary sector, which earned a DI score of -0.22, likely fuelling the reduction in lending to the agricultural industry. In contrast, DTIs demonstrated increased interest in retail lending, as personal loans earned the highest score of 0.25. However, DTIs' portfolio of personal loans was relatively unchanged over H1-24, as write-offs were fairly concentrated in this area, outpacing new disbursements. Additionally, credit standards eased somewhat for the tertiary and secondary sectors which earned scores of 0.23 and 0.08, respectively. Accordingly, loans for professional and distributive services increased by \$19.0mn (27.6%) and \$7.7mn (3.5%) over the six-month horizon.

Respondents also identified several factors influencing overall loan supply, including:

- Risk aversion,
- Competition from other financial institutions,
- Inflationary pressures,
- State of the economy, and
- Liquidity position.

Few DTIs were able to realize their projected credit growth in the first half of 2024. None of

Chart 2: Loan Supply Conditions by Sector for H2-2024



the participating credit unions in the survey were able to achieve more than 40.0% of their target, while only two domestic banks attained more than 80.0%. This occurred even as six of the nine participating institutions approved more than 80.0% of loan applications over the same period, two approved between 60.0% and 80.0%, and one approved less than 40.0%. Approval ratios were higher among domestic banks, as many credit unions were plagued with concerns over the over-indebtedness of borrowers, regulatory requirements, and the impact of inflation on borrowers.

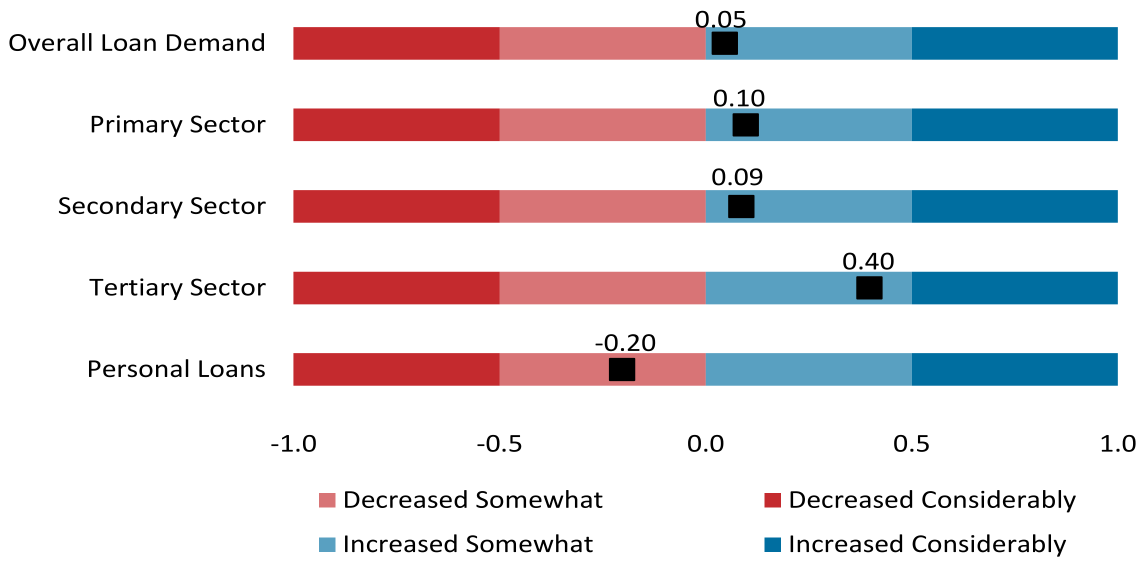
Credit Demand

From the perspective of lenders, overall credit demand appeared to have increased marginally in H1-24, resulting in a DI score of 0.05. Loan demand was strongest in the tertiary sector, earning a DI score of 0.40. This arose from heightened interest in loans for real estate and professional services, as demand for credit to support tourism-related activities appears to have waned. Demand in the primary and secondary sectors also strengthened, with DI scores of 0.10 and 0.09, respectively, mostly driven by the increased financing needs of the agricultural and manufacturing industries as well as utility companies. In contrast, demand for personal loans weakened over the semester, reducing its DI score to -0.20, which helps to explain the lacklustre growth in the sector, as demand-side factors likely countered the efforts of DTIs to ease credit standards for personal loans.

DTIs identified the following factors as having the largest impact on overall loan demand:

- Competition from other financial institutions,
- Inflation,
- Interest rates,
- Creditworthiness of borrowers, and
- Collateral requirements.

Chart 3: Loan Demand Conditions by Sector for H2-24



Competition among DTIs appears to have intensified over the first six months of the year, with a few institutions drawing special attention to the issue. Accordingly, some lenders appeared to have renewed efforts to appeal to borrowers by reducing borrowing costs, inter alia, which is likely tied to persistent concerns over the erosion of borrowers' repayment abilities amid inflationary pressures. Additionally, unexpected setbacks suffered by productive industries to which some DTIs are exposed, created some headwinds for expansions of loan portfolios. And finally, some credit unions cited the strain of meeting regulatory requirements alongside enhanced supervision as inhibiting lending activities.

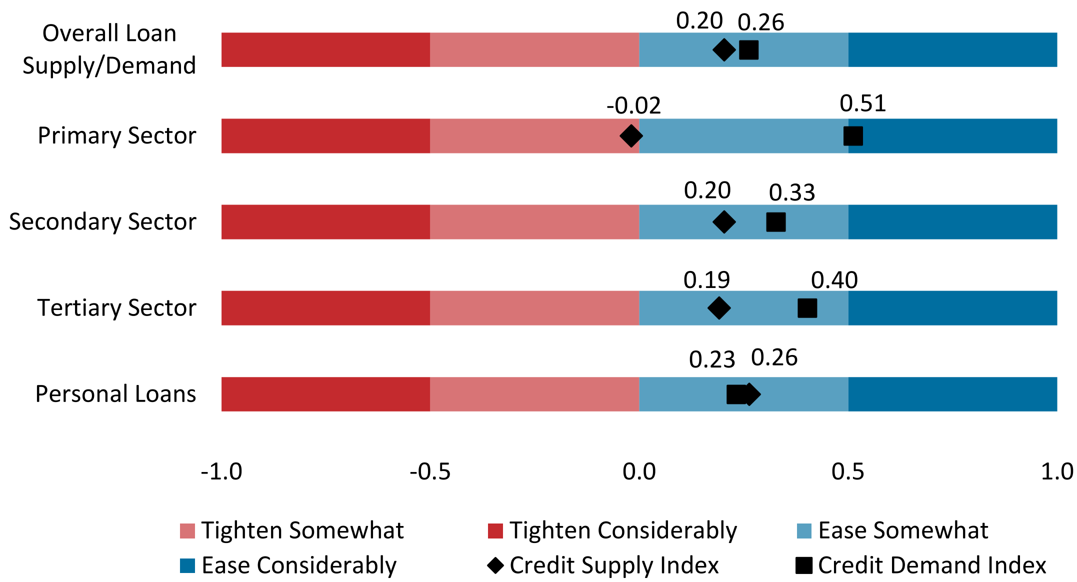
Credit Outlook

Looking ahead to H2-24, anticipated credit postures among DTIs will be mixed but ease somewhat overall. Most credit unions intend on adopting a more lenient stance, while most domestic banks intend to keep conditions unchanged. Just two credit unions, making up a small fraction of the credit market, expect to tighten credit standards for the upcoming semester. At the sectoral level, lenders expect to relax their credit stance for all sectors except the primary sector. The relaxation of standards for the second half of 2024 will be largely attributable to competition among financial institutions, the economic outlook, and DTIs' risk appetite.

As it pertains to the cost of borrowing, five DTIs plan to increase lending rates, while three will keep rates unchanged. Only one domestic bank planned to cut interest rates in the second half of the year.

At the same time, DTIs believe that there will be a slight uptick in loan demand for the latter half of 2024, particularly for loans to boost agriculture, construction, tertiary

Chart 4: Loan Supply and Demand Outlook for H2-24



activities (distribution, tourism, and real estate), and personal consumption. As such, seven of the nine respondents expect their loan portfolios will increase somewhat between July and December.